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Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

**CITADEL S-1 INCOME TRUST FUND**

**ANNUAL REPORT 2007**

# CITADEL S-1 INCOME TRUST FUND

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Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange on October 6, 2000. The Fund has a termination date of December 31, 2010 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2007, Citadel S-1 paid total cash distributions of \$1.548 per unit compared to \$1.598 per unit in 2006. In addition to the regular monthly distributions of \$0.104 per unit for 2007, Citadel S-1 declared a special cash distribution of \$0.30 per unit and an estimated special unit distribution of \$0.90 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. Upon completion of the Fund's 2007 tax information, the Fund adjusted the value of the special unit distribution to \$0.8945 per unit to more accurately reflect tax splits on distributions received from its underlying portfolio holdings. The unit distribution, which was immediately consolidated into the Fund's previously issued and outstanding units, resulted in an increase to the adjusted cost base of each unit. On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis, and as a result all per unit information has been restated to reflect the unit split.

## INVESTMENT HIGHLIGHTS:

	2007	2006	2005
Net Assets per Unit <sup>(1)</sup>	\$ 14.57	\$ 14.94	\$ 16.98
Market Price per Unit <sup>(1)</sup>	\$ 13.30	\$ 13.10	\$ 15.88
Trading Premium (Discount)	(8.7%)	(12.3%)	(6.5%)
Cash Distributions per Unit	\$ 1.548	\$ 1.598	\$ 1.248
Trailing Yield <sup>(2)</sup>	11.6%	12.2%	7.9%
Market Capitalization (\$ millions)	\$ 51.2	\$ 53.1	\$ 66.7

<sup>(1)</sup> Net assets and market price per unit are based on year end values.

<sup>(2)</sup> Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

## MANAGEMENT REPORT OF FUND PERFORMANCE

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(March 20, 2008)

This annual report for the years ended December 31, 2007 and 2006 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel S-1 Income Trust Fund.

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at [www.citadelfunds.com](http://www.citadelfunds.com) to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

## INVESTMENT OBJECTIVES AND STRATEGIES

Citadel S-1's investment objectives are to provide its unitholders with a high level of monthly distributions while maintaining an SR-1 stability rating and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of Canadian income funds, Canadian and U.S. high yielding investment grade debt and income yielding equity securities.



## **RISK**

There are a number of risks associated with an investment in Citadel S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

## **INCOME TRUST TAX**

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Citadel S-1, however the tax will impact many of the holdings within its portfolio.

## **RESULTS OF OPERATIONS**

The overall income trust sector experienced much higher redemptions in 2007 relative to 2006 despite having produced a positive total return of 6.6% in 2007 compared to negative 2.8% in 2006. In addition to the negative funds flow into the sector, weakness in the energy and real estate sectors along with confirmation of the new tax on trust distributions commencing in 2011 weighed on overall valuations. Despite record high oil prices in 2007, energy related trusts were hampered by the rising \$Cdn and escalating costs as well as soft natural gas prices and the prospect of Alberta royalty rate increases. In addition, Reits suffered their first year of negative performance since 1998 as concern over the decelerating US economy and US real estate issues caused by tightening credit depressed Reit unit prices. On the positive side, strong acquisition and privatization activity provided some sector wide unit price support, particularly in the ongoing business trust sector.

As a result of these negative market conditions and the Fund's mandatory unit repurchases, Citadel S-1's net assets declined from \$60.5 million at December 31, 2006 to \$56.1 million at December 31, 2007. On a per unit basis, the Fund's net assets also declined from \$14.94 per unit at the end of 2006 to \$14.57 per unit at December 31, 2007.

The Fund's market price closed at \$13.30 per unit at December 31, 2007, up from \$13.10 per unit on December 31, 2006. Citadel S-1's market price appreciation plus monthly cash distributions produced a 13.9% total return for 2007, while the Fund generated a 6.2% total return on a net assets basis. By comparison, the S&P/TSX Income Trust Index returned 6.6% over the same period.

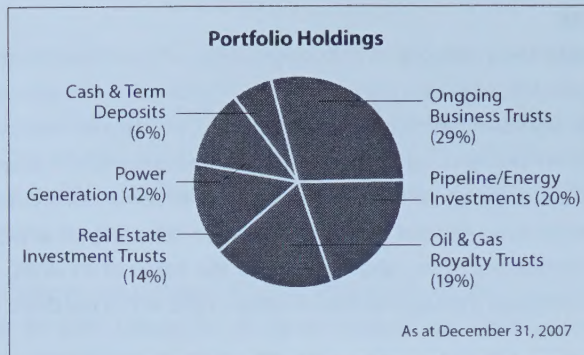
Total revenue for 2007 was \$5.4 million compared to \$5.7 million in 2006. The decline in revenue was primarily due to a lower asset base year over year resulting from unit repurchases throughout 2007. Administrative and investment manager fees, payable in cash, totaled \$0.81 million in 2007 compared to \$0.94 million in 2006, paid in units of the Fund, again lower due to a declining asset base. In October 2007, the Fund commenced paying these fees in cash, rather than in units of the Fund, in order to comply with TSX listing requirements. Total general and administration costs, including portfolio transaction costs and other expenses, were \$0.3 million in 2007 compared to \$0.24 million in 2006. The reason for the increase relates to the inclusion of portfolio transaction costs of \$0.07 million in 2007 which are not reflected in the 2006 figures due to the implementation of the new accounting standard on financial instruments. Net investment income and net investment income per unit were \$4.3 million or \$1.08 per unit in 2007 compared to \$4.5 million or \$1.09 per unit in 2006 due to higher revenue in 2006.

The Fund realized gains of \$2.6 million in 2007 on the disposition of investments in its portfolio compared to net realized gains of \$2.0 million in 2006. Offsetting these realized gains were unrealized losses of \$2.3 million on its



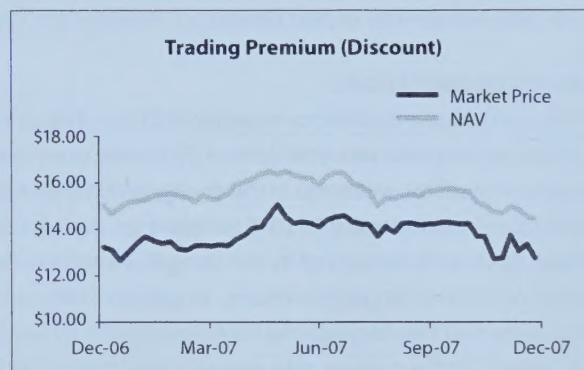
portfolio in 2007 which generated total results of operations of \$4.6 million or \$1.15 per unit in 2007 compared to negative \$2.0 million or negative \$0.49 per unit in 2006.

During 2007, Citadel S-1 paid monthly distributions of \$0.104 per unit plus a special year end cash distribution of \$0.30 per unit for total cash distributions of \$1.548 per unit or \$6.1 million. In addition, the Fund paid a special unit distribution of \$0.8945 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. The unit distribution was immediately consolidated into the Fund's previously issued and outstanding units. By comparison, the Fund paid total cash distributions of \$6.5 million or \$1.598 per unit in 2006 which also included a special year end cash distribution of \$0.35 per unit.



#### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2007, the Fund's market price traded at an average discount to its net asset value per unit of 11.4% compared to an average discount of 9.7% for 2006. With this discount, the Fund repurchased 198,500 units at an average cost of \$13.74 per unit under its mandatory repurchase program for 2007 compared to 205,300 units at an average cost of \$15.18 per unit for 2006. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



#### STABILITY RATING

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2007, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

#### RECENT DEVELOPMENTS

##### Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Citadel S-1's three person Independent Review Committee ("IRC") was formed on April 1, 2007 and became fully operational on November 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures were adopted on November 1, 2007 and the Fund was in full compliance with NI 81-107 at that time.

##### New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of



financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

As outlined in National Instrument 81-106 Section 14.2, the net asset value ("NAV") of an investment fund is to be calculated in accordance with Canadian GAAP. The Canadian Securities Administrators ("CSA") granted temporary relief to investment funds from complying with Section 3855 for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements. This relief period has been extended until September 30, 2008. The CSA has proposed amendments to NI 81-106 that will permit funds to have two different net asset values; one for financial statements which will be prepared in accordance with Canadian GAAP (referred to as "net assets" or "net assets per unit"); and another for all other purposes (referred to as "net asset value" or "net asset value per unit"). Until that time, the Fund intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements. This Management Report of Fund Performance has been prepared based on the proposed amendments and the December 31, 2007 annual financial statements have been presented in accordance with the new accounting rules.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.



#### **Future Accounting Pronouncements**

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

#### **FORWARD LOOKING STATEMENTS**

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

#### **RELATED PARTY TRANSACTIONS**

Citadel S1 Management Ltd. is the administrator of Citadel S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable in units or cash at the option of the administrator. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

#### **FINANCIAL HIGHLIGHTS**

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year in the 5 year period ended December 31, 2007.



**Net Assets per Unit ("NAPU")**

	2007	2006	2005	2004	2003
NAPU, beginning of period	\$ 14.94	\$ 16.98	\$ 16.26	\$ 15.09	\$ 13.00
Increase (decrease) from operations:					
Total revenue	1.36	1.38	1.34	1.36	1.32
Total expenses	(0.28)	(0.29)	(0.29)	(0.26)	(0.24)
Realized gains (losses)	0.65	0.47	0.59	0.94	0.64
Unrealized gains (losses)	(0.58)	(2.05)	0.30	0.77	1.64
Total increase (decrease) from operations	1.15	(0.49)	1.94	2.81	3.36
Distributions:					
From net investment income	1.23	1.32	1.25	1.30	1.25
From capital gains	0.32	0.28	–	0.35	–
Total cash distributions	1.55	1.60	1.25	1.65	1.25
NAPU, end of period	\$ 14.57	\$ 14.94	\$ 16.98	\$ 16.26	\$ 15.09

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2007 NAPU is based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

At the end of 2007, the Fund declared a special unit distribution which is not reflected above. This unit distribution was immediately consolidated into the Fund's previously issued and outstanding units and as a result there was no impact to the net assets per unit.

**Ratios and Supplemental Data**

	2007	2006	2005	2004	2003
Net assets (\$ 000's)	\$ 56,124	\$ 60,535	\$ 71,286	\$ 69,639	\$ 64,873
Number of units outstanding	3,852,183	4,050,683	4,197,122	4,283,454	4,298,658
Management expense ratio	1.69%	1.73%	1.78%	1.69%	1.77%
Portfolio turnover ratio	38.09%	31.07%	23.74%	20.84%	42.58%
Trading expense ratio	0.12%	0.09%	0.10%	0.07%	0.13%
Closing market price	\$ 13.30	\$ 13.10	\$ 15.88	\$ 16.89	\$ 14.25

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.



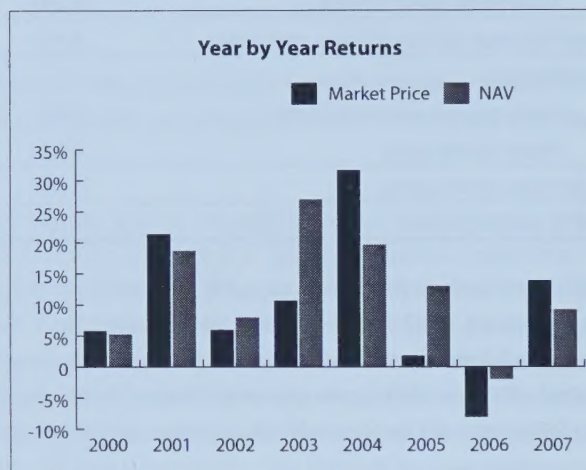
## MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable in units or cash at the option of the administrator. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for a portion of the management fee. These fees represent payment for the administrative and investment management provided to the Fund.

## PAST PERFORMANCE

Citadel S-1's performance numbers represent the annual compound total returns over the period from inception in October 2000 to December 31, 2007 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



## ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Citadel S-1 based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2007. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2007, Citadel S-1's net assets return exceeded the index due to its relative overweight position in the ongoing business trust sector which fared much better due to takeover activity.

	1 Year	3 Year	5 Year	Since inception
Citadel S-1 (market price)	13.86%	2.03%	9.89%	10.88%
Citadel S-1 (net assets)	9.37%	6.48%	12.87%	13.37%
S&P/TSX Capped Income Trust Index	6.61%	10.70%	18.91%	18.90%

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2007

Net Assets: \$56,123,543

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	29.9%
Pipeline / Energy Investments	20.5%
Oil & Gas Royalty Trusts	18.9%
Real Estate Investment Trusts	13.8%
Power Generation Investments	12.6%
Cash and Term Deposits	6.1%
Liabilities, net of other assets	(1.8%)
Total Net Assets	100.0%



**TOP 25 HOLDINGS** (as a % of net assets)

Northland Power Income Fund	5.6%	Rogers Sugar Income Fund	2.9%
Keyera Facilities Income Fund	4.2%	ARC Energy Trust	2.9%
Inter Pipeline Fund	4.2%	Crescent Point Energy Trust	2.7%
AltaGas Income Trust	4.2%	Superior Plus Income Fund	2.7%
Epcor Power L.P.	4.2%	Calloway Reit	2.6%
Yellow Pages Income Fund	4.2%	Noranda Income Fund	2.5%
Firm Capital Mortgage Investment Trust	4.0%	SunGro Horticultural Income Fund	2.4%
Bell Aliant Regional Comm. Income Fund	3.7%	Bonavista Energy Trust	2.3%
Enerplus Resources Fund	3.5%	TransForce Income Fund	2.1%
CML Healthcare Income Fund	3.4%	H&R Reit	2.1%
Riocan Reit	3.1%	Energy Savings Income Fund	2.1%
Fort Chicago Energy Partners L.P.	3.1%	NAL Oil & Gas Trust	2.1%
Vermilion Energy Trust	3.0%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at [www.citadelfunds.com](http://www.citadelfunds.com).



# MANAGEMENT'S RESPONSIBILITY STATEMENT

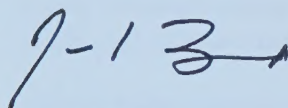
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The financial statements of Citadel S-1 Income Trust Fund have been prepared by Citadel S1 Management Ltd. ("CSML") and approved by the Board of Directors of CSML. CSML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CSML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CSML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CSML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel S1 Management Ltd.

March 20, 2008



Darren K. Duncan  
Chief Financial Officer  
Citadel S1 Management Ltd.

# AUDITORS' REPORT TO UNITHOLDERS

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To the Unitholders of Citadel S-1 Income Trust Fund

We have audited the statements of net assets and investments of Citadel S-1 Income Trust Fund as at December 31, 2007 and 2006 and the statements of operations and comprehensive income and changes in net assets for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2007 and 2006 and the results of its operations and the changes in its net assets for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 20, 2008

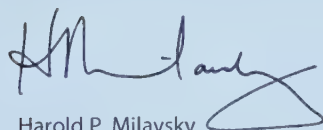


# STATEMENT OF NET ASSETS

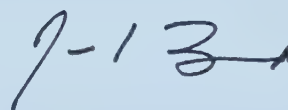
As at December 31	2007	2006
<b>Assets</b>		
Investments, at market	\$ 53,653,427	\$ 54,430,294
Cash and term deposits	3,438,782	6,731,129
Revenue receivable	539,346	485,010
Accounts receivable	66,781	71,181
Prepaid expenses	46,875	690,087
	57,745,211	62,407,701
<b>Liabilities</b>		
Accounts payable	65,386	-
Payable for investments purchased	-	33,337
Distributions payable	1,556,282	1,839,010
	1,621,668	1,872,347
Net Assets representing Unitholders' Equity	\$ 56,123,543	\$ 60,535,354
Units outstanding (note 3)	3,852,183	4,050,683
Net Assets per unit	\$ 14.57	\$ 14.94

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer



# STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the years ended December 31	2007	2006
<b>Revenue</b>		
Distribution income	\$ 5,178,099	\$ 5,382,611
Interest income	171,146	276,652
Securities lending income	28,492	6,206
	<b>5,377,737</b>	<b>5,665,469</b>
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	806,837	936,885
General and administration costs	75,351	93,566
Directors' fees	74,889	70,026
Portfolio transaction costs (note 7)	71,384	–
Audit fees	23,475	22,285
Reporting costs	21,152	26,713
Legal fees	13,829	12,391
Custodial fees	8,731	8,607
Trustee fees	7,947	9,181
	<b>1,103,595</b>	<b>1,179,654</b>
<b>Net investment income</b>	<b>4,274,142</b>	<b>4,485,815</b>
<b>Net realized gain on sale of investments</b> (note 5)	<b>2,592,186</b>	<b>1,951,252</b>
<b>Net change in unrealized gain (loss) on investments</b>	<b>(2,312,535)</b>	<b>(8,456,157)</b>
<b>Total results of operations and comprehensive income</b>	<b>\$ 4,553,793</b>	<b>\$ (2,019,090)</b>
<b>Results of operations per unit <sup>(1)</sup></b>		
Net investment income	\$ 1.08	\$ 1.09
Net realized gain on sale of investments	0.65	0.47
Net change in unrealized gain (loss) on investments	(0.58)	(2.05)
	<b>\$ 1.15</b>	<b>\$ (0.49)</b>

<sup>(1)</sup> Based on the weighted average number of units outstanding.

see accompanying notes



## STATEMENT OF CHANGES IN NET ASSETS

For the years ended December 31	2007	2006
<b>Net Assets – beginning of year</b>	<b>\$ 60,535,354</b>	<b>\$ 71,286,003</b>
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	(161,797)	–
Operations:		
Net investment income	4,274,142	4,485,815
Net realized gain on sale of investments	2,592,186	1,951,252
Net change in unrealized gain (loss) on investments	(2,312,535)	(8,456,157)
	<b>4,553,793</b>	<b>(2,019,090)</b>
Unitholder Transactions: (note 3)		
Issuance of trust units, net	3,445,778	920,116
Repurchase of trust units	(2,728,360)	(3,116,892)
	<b>717,418</b>	<b>(2,196,776)</b>
Distributions to Unitholders: (note 6)		
From net investment income	(4,964,229)	(5,425,228)
From capital gains	(2,592,186)	(1,109,555)
Return of capital	(1,964,810)	–
	<b>(9,521,225)</b>	<b>(6,534,783)</b>
<b>Net Assets – end of year</b>	<b>\$ 56,123,543</b>	<b>\$ 60,535,354</b>
<b>Distributions per unit</b>	<b>\$ 2.4425</b>	<b>\$ 1.598</b>

see accompanying notes

## STATEMENT OF INVESTMENTS

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<b>Oil &amp; Gas Royalty Trusts</b>								
ARC Energy Trust	80,000	\$ 1,090,308	\$ 1,629,600		70,000	\$ 818,920	\$ 1,561,000	
Bonavista Energy Trust	45,000	842,301	1,277,100		40,500	711,351	1,140,075	
Crescent Point Energy Trust	61,500	1,034,145	1,518,435		60,000	1,005,000	1,056,000	
Enerplus Resources Fund	49,300	1,591,581	1,960,168		28,000	721,691	1,419,040	
Harvest Energy Trust	42,500	1,198,670	876,775		42,500	1,198,670	1,114,775	
NAL Oil & Gas Trust	100,000	1,371,300	1,155,000		90,000	1,251,900	1,107,900	
Paramount Energy Trust	–	–	–		70,000	904,896	868,000	
Progress Energy Trust	43,800	472,577	473,916		–	–	–	
Shiningbank Energy Income Fund	–	–	–		65,000	960,159	835,250	
Vermilion Energy Trust	50,000	705,000	1,703,000		50,000	705,000	1,750,000	
		<b>8,305,882</b>	<b>10,593,994</b>	<b>18.6%</b>		<b>8,277,587</b>	<b>10,852,040</b>	<b>17.7%</b>

(continued on following page)

	December 31, 2007				December 31, 2006			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
<b>Ongoing Business Trusts</b>								
Amtelecom Income Fund	–	–	–		180,000	1,980,000	1,998,000	
Arctic Glacier Income Fund	95,000	1,182,750	1,087,750		–	–	–	
BFI Canada Income Fund	–	–	–		23,700	691,865	637,530	
Bell Aliant Regional Comm. Income Fund	70,000	2,254,982	2,060,100		24,800	830,614	668,608	
Brookfield Real Estate Services Fund	38,000	440,800	509,960		–	–	–	
CML Healthcare Income Fund	110,000	1,253,792	1,883,200		110,000	1,253,792	1,534,500	
Custom Direct Income Fund	–	–	–		135,000	1,255,091	1,009,800	
Great Lakes Carbon Income Fund	–	–	–		100,000	1,263,000	1,130,000	
Noranda Income Fund	145,000	1,441,969	1,397,800		–	–	–	
Northstar Healthcare Inc.	66,000	822,053	1,042,800		–	–	–	
Rogers Sugar Income Fund	350,000	1,340,500	1,634,500		–	–	–	
Royal LePage Franchise Services Fund	–	–	–		120,000	1,392,000	1,602,000	
Royal Utilities Income Fund	80,000	907,190	847,200		27,700	277,000	314,395	
SFK Pulp Fund	215,600	474,320	476,476		–	–	–	
SunGro Horticulture Income Fund	170,000	1,283,500	1,343,000		–	–	–	
Telus Corp.	18,500	861,730	914,455		17,200	1,060,857	894,916	
Teranet Income Fund	–	–	–		155,400	1,521,900	1,381,506	
TransForce Income Fund	130,000	1,301,001	1,196,000		73,389	593,947	990,018	
Yellow Pages Income Fund	170,000	2,226,866	2,361,300		145,000	1,881,866	1,866,150	
		15,791,453	16,754,541	29.3%		14,001,932	14,027,423	22.9%
<b>Pipeline/Energy Investments</b>								
AltaGas Income Trust	90,000	2,341,435	2,367,000		100,000	2,601,595	2,620,000	
Energy Savings Income Fund	70,000	715,713	1,165,500		31,000	215,343	416,950	
Fort Chicago Energy Partners L.P.	160,000	1,669,183	1,732,800		–	–	–	
Inter Pipeline Fund	250,000	1,427,417	2,370,000		320,000	1,827,093	2,892,800	
Keyera Facilities Income Fund	120,000	1,572,788	2,372,400		170,000	2,228,116	2,828,800	
Superior Plus Income Fund	130,000	1,825,600	1,506,700					
		9,552,136	11,514,400	20.2%		6,872,147	8,758,550	14.3%
<b>Power Generation Investments</b>								
Algonquin Power Income Fund	–	–	–		154,204	1,470,540	1,531,246	
Boralex Power Income Fund	130,000	1,227,800	761,800		–	–	–	
Countryside Power Income Fund	–	–	–		55,800	543,637	387,810	
Epcor Power L.P.	101,700	2,799,687	2,365,542		36,900	1,121,578	987,075	
Innergex Power Income Fund	70,000	861,770	826,000		–	–	–	
Northland Power Income Fund	255,000	2,642,163	3,113,550		255,000	2,642,163	3,332,850	
		7,531,420	7,066,892	12.4%		5,777,918	6,238,981	10.2%
<b>Real Estate Investment Trusts</b>								
Calloway Reit	60,000	1,456,550	1,453,800		45,000	1,098,050	1,242,000	
Dundee Reit	–	–	–		83,000	1,907,793	3,207,950	
Extendicare Reit	90,000	1,347,764	1,116,000		90,000	1,347,764	1,307,700	
Firm Capital Mortgage Investment Trust	220,000	2,194,424	2,226,400		270,000	2,693,157	2,821,500	
H & R Reit	60,000	1,151,271	1,187,400		60,000	1,151,271	1,445,400	
Retirement Residences Reit	–	–	–		300,000	2,472,480	2,484,000	
Riocan Reit	80,000	765,774	1,740,000		80,000	765,774	2,012,000	
		6,915,783	7,723,600	13.5%		11,436,289	14,520,550	23.8%
Citadel S-1 units – repurchased for cancellation	–	–	–	–	2,500	33,336	32,750	0.1%
<b>Investments</b>		48,096,674	53,653,427	94.0%		46,399,208	54,430,294	89.0%
<b>Cash and Term Deposits</b>		3,438,782	3,438,782	6.0%		6,731,129	6,731,129	11.0%
<b>Total</b>		\$ 51,535,456	\$ 57,092,209	100.0%		\$ 53,130,337	\$ 61,161,423	100.0%

All portfolio holdings are trust units, except the following: Noranda Income Fund – priority units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A L.P. units; Epcor Power L.P., – limited partnership units; Telus Corp. – common shares and Northstar Healthcare Inc. – income participating security.



# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

## 1. STRUCTURE OF THE FUND

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. The Fund commenced operations upon completion of its initial public offering on October 6, 2000. The term of the Fund continues until December 31, 2010 in accordance with the provisions of the Fund's Declaration of Trust.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

### (a) Cash and term deposits

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

### (b) Valuation of investments

Investments are valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders, no provision for income taxes has been made in these financial statements.

### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### (e) New Accounting Standards

The Canadian Institute of Chartered Accountants issued Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments - Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income" which became effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These sections prescribe the criteria for recognition and presentation of financial instruments on the statement of net assets and the measurement of financial instruments according to prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized. The Fund is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities.

Section 3855 further establishes a standard for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for short securities. Prior to the implementation of this new standard, the fair value of financial instruments traded in an active market was generally based on the closing price for the day. Section 3855 also requires that portfolio transaction costs incurred in the purchase and sale of investments be charged to net income in the period incurred. Prior to this new standard these costs were added to the cost of the investments purchased or deducted from the proceeds of sale. Section 3855 has been applied prospectively without restatement

of prior periods. An adjustment has been made to the opening net assets in the Statement of Changes in Net Assets in order to reflect the effect on investments held at December 31, 2006, of following section 3855 with respect to recording the fair value of investments at bid prices.

All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net income and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost. All derivative financial instruments, including derivative features embedded in financial instruments or other contracts which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and therefore must be measured at fair value with changes in fair value recorded in net income. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net income. Upon adoption on January 1, 2007, the Fund was not party to any derivative contracts. Portfolio investments were classified as held for trading and all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis. All remaining financial liabilities were classified as other financial liabilities.

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including changes in the fair value of the effective portion of cash flow hedging instruments. As required, prior periods have not been restated as a result of implementing Section 1530.

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, investments, accounts payable, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

#### (f) Future Accounting Pronouncements

The CICA issued three new accounting standards in 2007, section 1535, "Capital Disclosures", section 3862, "Financial Instruments – Disclosures", and section 3863, "Financial Instruments – Presentation". These standards become effective for the Fund in 2008. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose of this section will be to allow users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, "Financial Instruments – Disclosure and Presentation", which will revise and enhance the disclosure requirements and will carry forward unchanged its presentation requirements.

### 3. UNITHOLDERS' CONTRIBUTION

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Trust units – beginning of year	4,050,683	\$ 46,762,528	4,197,122	\$ 48,959,304
Issued for services (note 4)	–	–	58,861	920,116
Unit distribution and consolidation	–	3,445,778	–	–
Repurchase of trust units	(198,500)	(2,728,360)	(205,300)	(3,116,892)
Trust units – end of year	3,852,183	\$ 47,479,946	4,050,683	\$ 46,762,528



On November 15, 2005, the Fund completed a unit split on a 2:1 basis. All comparative information has been adjusted to reflect this unit split. The weighted average number of units outstanding for the year ended December 31, 2007 was 3,957,711 units (2006 – 4,115,609 units).

The Fund declared a special unit distribution of \$0.8945 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. The unit distribution was immediately consolidated into the Fund's previously issued and outstanding units.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of such quarter. For the year ended December 31, 2007, Citadel S-1 repurchased 198,500 trust units under this repurchase program at an average cost of \$13.74 per unit (2006 - 205,300 units at an average cost of \$15.18 per unit).

#### 4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES / DIRECTORS' FEES

Citadel S1 Management Ltd. ("CSML") is the administrator of the Fund and therefore a related party to the Fund. Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.25% of the aggregate average weekly net asset value of the Fund, payable in units or cash at the option of the administrator. In October 2007, the administrator and investment manager commenced receiving their management fees in cash monthly in arrears. In October 2006, the administrator and investment manager were issued 55,786 units in advance for the next twelve months of services. For the year ended December 31, 2007, the Fund recorded an expense of \$806,837 (2006 – \$936,885) in respect of the administrative and investment management fees earned during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2007, included in accounts payable were amounts owed from CSML of \$37,641 (2006 - \$71,181 in accounts receivable).

Directors of CSML were paid in October a total of \$76,255 in cash (2006 – 3,075 units for a value of \$62,500) as part of their annual retainers.

#### 5. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

For the years ended December 31	2007	2006
Proceeds from the sale of securities	\$ 24,049,255	\$ 25,337,659
Less cost of securities sold:		
Investments at cost – beginning of year	46,399,208	47,800,636
Investments purchased during year	23,154,535	21,984,979
Investments at cost – end of year	(48,096,674)	(46,399,208)
Cost of investments disposed of during year	21,457,069	23,386,407
Net realized gain on sale of investments	\$ 2,592,186	\$ 1,951,252

## 6. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.104 per unit based upon cash distributions received by the Fund less estimated expenses. For the years ended December 31, 2007 and 2006, the Fund also distributed a portion of its realized capital gains and/or a return of capital.

For the years ended December 31	2007	2006
Net investment income for the period	\$ 4,274,142	\$ 4,485,815
Add fees paid by issuance of units	690,087	939,413
Capital distributed	1,111,218	1,109,555
Cash distributions	6,075,447	6,534,783
Special unit distribution	3,445,778	–
Total distributions	\$ 9,521,225	\$ 6,534,783
Cash distributions per unit	\$ 1.5480	\$ 1.598
Special unit distribution per unit	0.8945	–
Total distributions per unit	\$ 2.4425	\$ 1.598

## 7. PORTFOLIO TRANSACTION COSTS

For the year ended December 31, 2007, the Fund incurred portfolio transaction costs of \$71,384 (2006 – \$61,018) and they are recorded separately in the Statement of Operations for 2007 only, as per Note 2(e).

## 8. SECURITIES LENDING

The Fund engaged in securities lending during 2007 and as at December 31, 2007, the Fund had lent out \$8.8 million (2006 – \$5.3 million) of its portfolio securities with \$9.3 million (2006 – \$5.7 million) of collateral in primarily federal and provincial bonds.



# CORPORATE INFORMATION

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## ADMINISTRATORS

Citadel Diversified Management Ltd.  
Citadel S1 Management Ltd.  
Citadel TEF Management Ltd.  
Citadel CPRT Management Ltd.  
Citadel Series Management Ltd.  
Equity Lift Management Ltd.  
N.A. Energy Management Inc.  
Stable Yield Management Inc.  
Sustainable PE Management Inc.  
Equal Weight Management Ltd.  
CGF Funds Management Ltd.  
CGF Resource FT Funds Management Ltd.  
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Calgary, Alberta T2P 3N9  
Telephone: (403) 261-9674  
Toll Free: 1 877 261-9674  
Fax: (403) 261-8670  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

## INVESTMENT MANAGER

**(CTD.un, SDL.un, CHF.un, CRT.un,  
SRC.un and CSR.un)**

Bloom Investment Counsel, Inc.  
Suite 1710, 150 York Street  
Toronto, Ontario M5H 3S5

## INVESTMENT MANAGER

**(EPF.un, SPU.un and CGF Resource 2006)**

Galileo Equity Management Inc.  
161 Bay Street, Suite 4730  
Toronto, Ontario M5J 2S1

## INVESTMENT MANAGER

**(CPF.un)**

Fiera YMG Capital Inc.  
1501 McGill College Avenue, Suite 900  
Montreal, Quebec H3A 3M8

## REBALANCING ADVISOR

**(IEP.un, EQW.un and FPR.pr.a)**

Shaunessy Investment Counsel Inc.  
Suite 504, 933-17th Avenue S.W.  
Calgary, Alberta T2T 5R6

## INDEPENDENT REVIEW COMMITTEE

Stephen Allan - Chairman  
John Watson  
Duane Keinick

## DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board  
Micheline Bouchard - Director  
Doug D. Baldwin - Director  
Kent J. MacIntyre - Director  
James T. Bruvall - Director and Chief Executive Officer  
Darren K. Duncan - Chief Financial Officer  
Joseph F. MacDonald - Executive V.P. Sales & Marketing

## TRUSTEE

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Sixth Floor  
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Calgary, Alberta T2P 3S8

## CUSTODIAN

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Toronto, Ontario M5H 4A6

## LEGAL COUNSEL

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Calgary, Alberta T2P 5C5

## AUDITORS

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Calgary, Alberta T2P 5L3

## STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange  
Citadel Diversified Investment Trust units: **CTD.un**  
Citadel S-1 Income Trust Fund units: **SDL.un**  
Citadel HYTES Fund units: **CHF.un**  
Citadel SMaRT Fund units: **CRT.un**  
Citadel Premium Income Fund units: **CPF.un**  
Series S-1 Income Fund units: **SRC.un**  
Income & Equity Index Participation Fund units: **IEP.un**  
Energy Plus Income Trust units: **EPF.un**  
Citadel Stable S-1 Income Fund units: **CSR.un**  
Sustainable Production Energy Trust units: **SPU.un**  
Equal Weight Plus Fund units: **EQW.un**  
Financial Preferred Securities Corporation shares: **FPR.pr.a**  
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



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